

A Comparison of the Different Investment Models Available for Timber

Gary A. Myers, TimberLink LLC
Timberland Investing World Summit
New York, NY
November 13, 2006

A Comparison of the Different Investment Models Available for Timber

- Tailoring the investment to the investor
- Evaluating the most popular models
- Understanding the typical acquisition
- Trends and Outlook

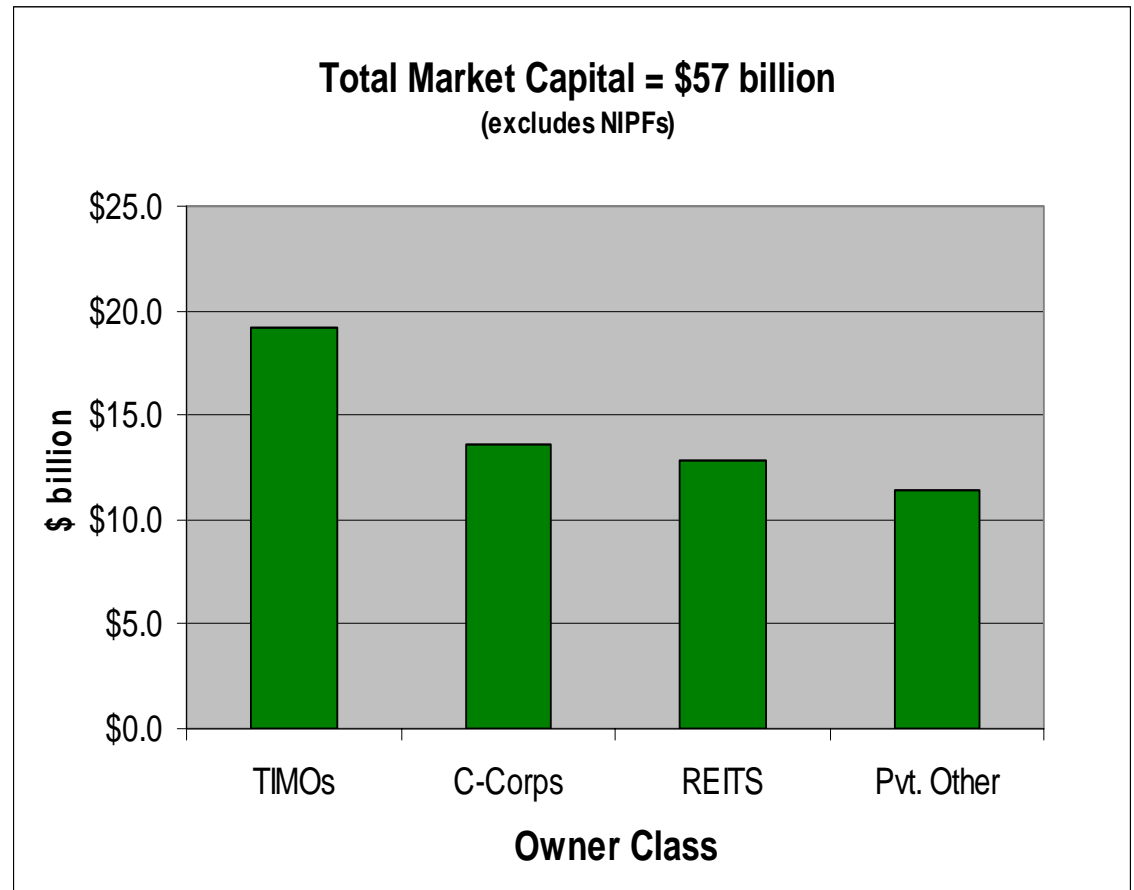
GOALS

- Give you the benefit of TimberLink's experience
- Provide historical context to understand choices
- Help you become more knowledgeable
- Help you develop realistic expectations

Total Market Capital

1st Question:

"How big is the commercial timber universe.....in the U.S."?



Characteristics & Barriers

“Why can’t you go out tomorrow and invest \$100 million in timber before sundown?”

- NIPF**
- Size - generally small (most are 200 acres or less)
 - Becoming aware of deals challenging
 - Efficient aggregation difficult (due diligence, commissions, fees)

- TIMOs**
- Generally holding –not selling
 - Dispositions typically smaller, close to retail
 - Owners generally happy
 - Illiquidity due to increase in commingled funds

- C-Corps**
- You may, but must accept dilution of Timberland dollar

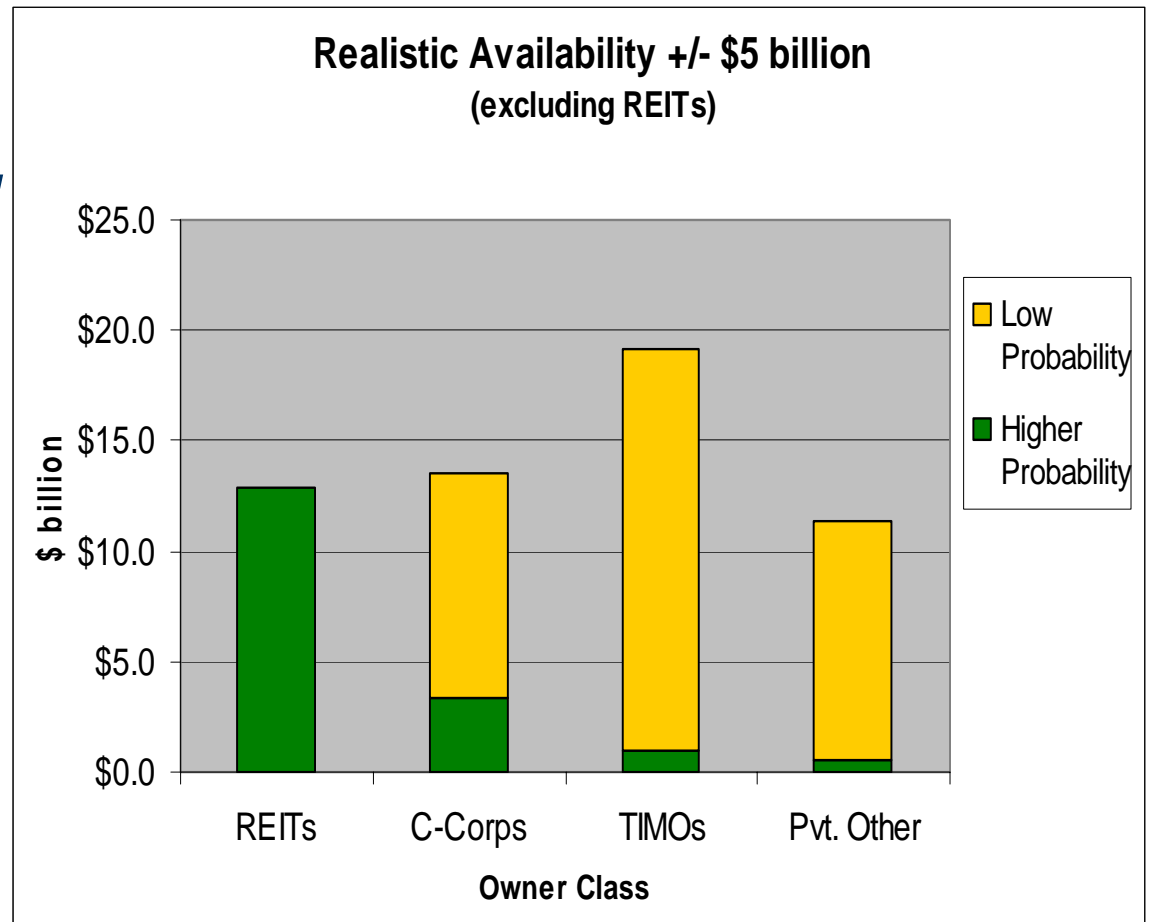
- REITs**
- You may,dollar dilution less than “C” Corps.

- Private/Other**
- Owners generally happy
 - Low profile owners - difficult to find
 - Difficult to strike a deal

Realistic Market Size for the New Investor?

2nd Question:

“Realistically, how big is the timber universe....in the U.S.for new investment?”



Structural Changes

1976

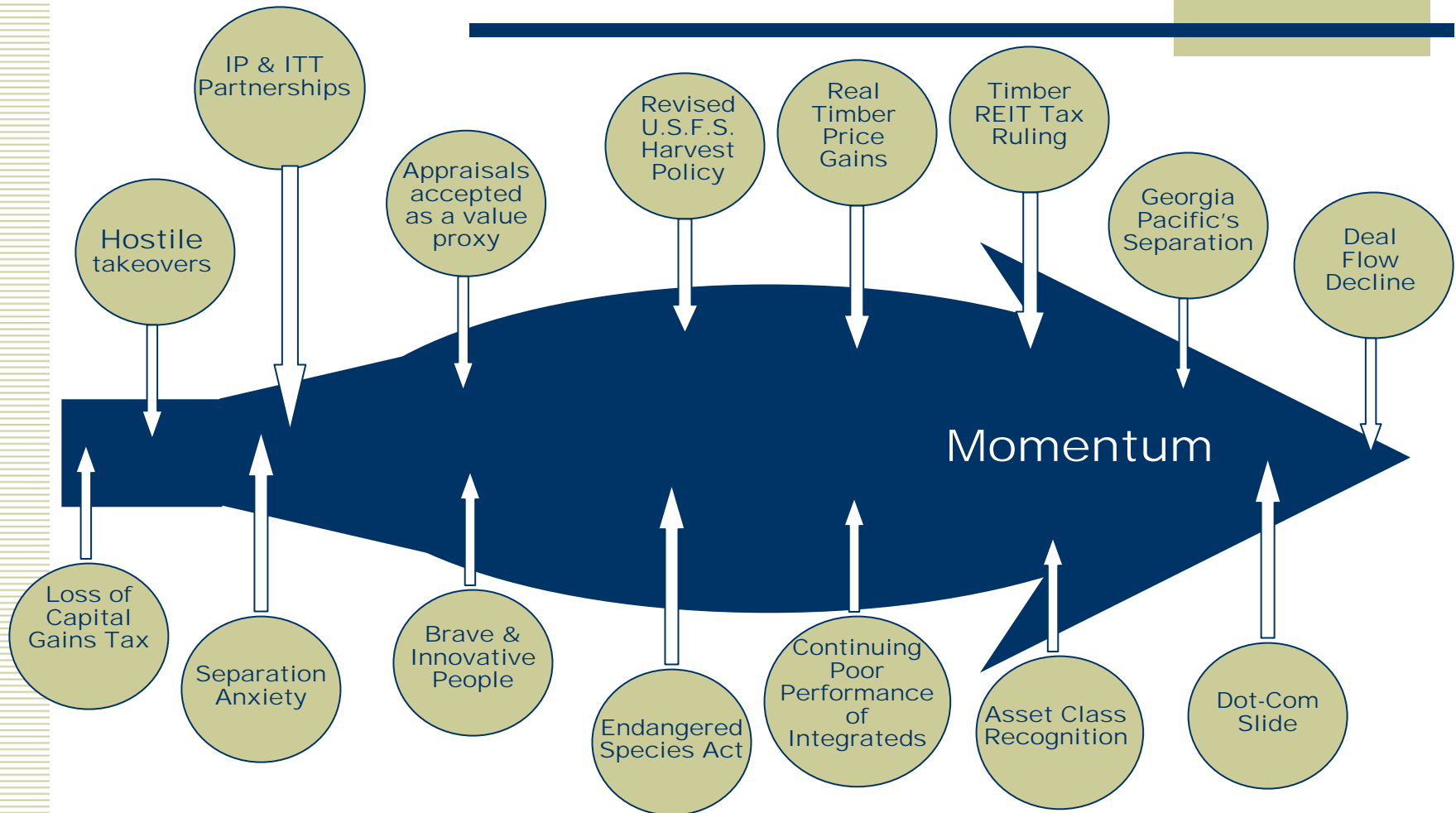
- 40+ "C" Corps
60+ million acres

Greater
Capital
Efficiency

2006

- 6 "C" Corps
11 million acres
- 4 REITs
13 million acres
- 18 TIMOs
18 million acres

The "Tipping Points" Leading to Greater Capital Efficiency

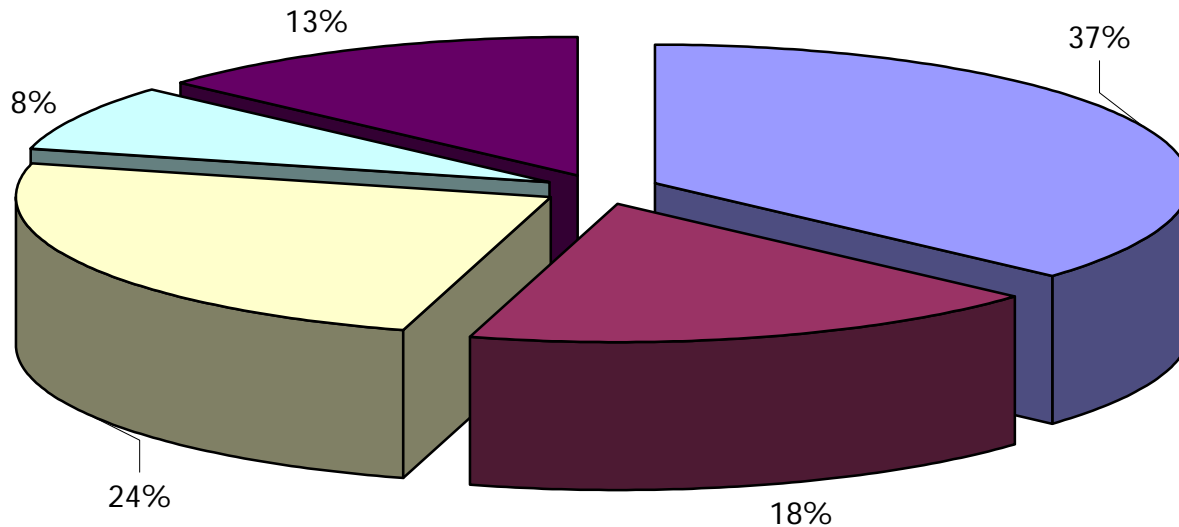


Why is History Important?

Although timber as an institutional asset class is relatively young, investments in timber have a long-lived history.

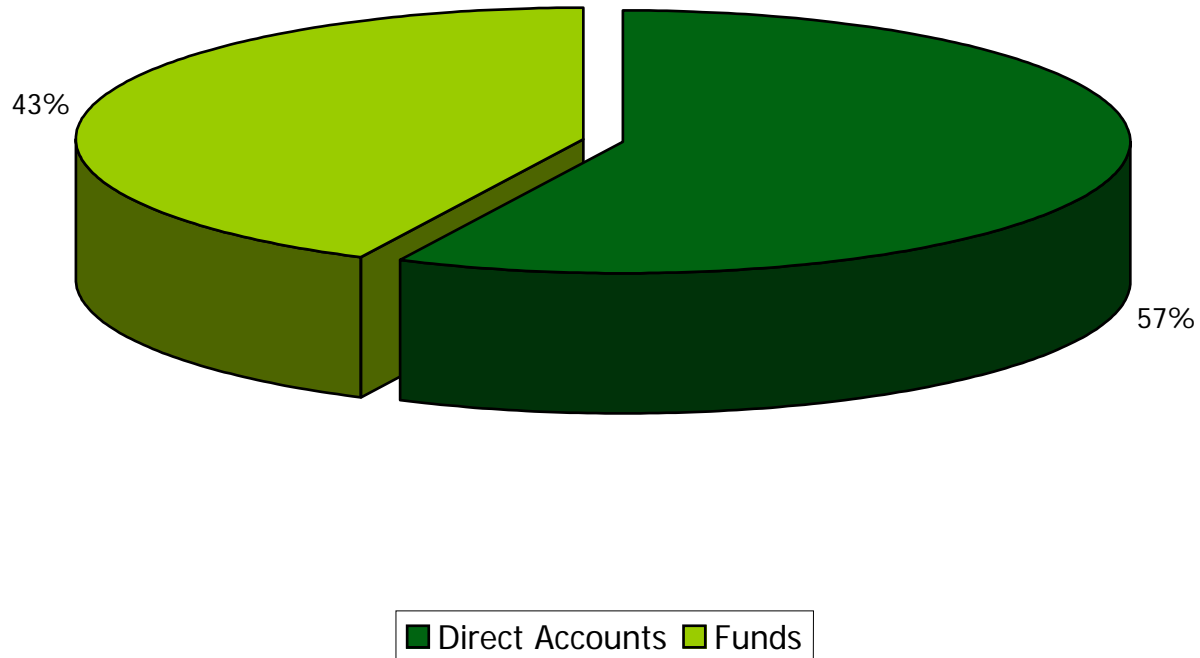
We have seen an exceptional period of change.....so history prepares us to better understand the choices now available.

So Who are the New Owners?



SOURCE: TimberLink's 6/30/06 proprietary survey of 18 TIMOs (includes ex-US properties)

And What Are The Forms of Ownership?



SOURCE: TimberLink's 6/30/06 proprietary survey of 18 TIMOs (includes ex-US properties)

Evaluating the Investment Models Available

- Funds
- Direct Accounts
- Publicly Traded Equity

Funds – Critique

Advantages

- ◆ Diversification for smaller investments
- ◆ Pooled risk
- ◆ Access to large deals
- ◆ Less administration

Disadvantages

- ◆ Illiquidity
- ◆ No control over investment decisions
- ◆ Fees non-negotiable

Direct Accounts – Critique

Advantages

- ◆ Discretionary control
- ◆ Portfolio customization
- ◆ Generally lower fees
- ◆ Timing of exit
- ◆ Account policy negotiation
- ◆ Direct ownership
(transferability)

Disadvantages

- ◆ Higher investment minimum
- ◆ May be difficult to achieve diversification
- ◆ More administration & monitoring

Publicly Traded Equities – Critique ("C" Corps & REITs)

Advantages

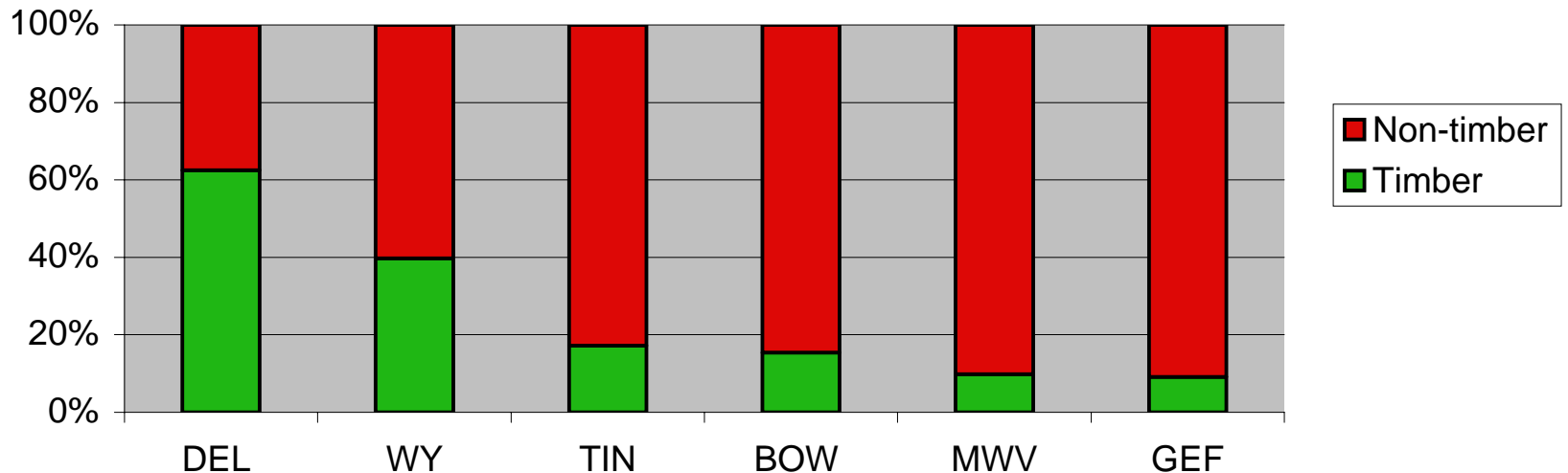
- ◆ Placement assurance
- ◆ Liquidity

Disadvantages

- ◆ Alignment of interests
- ◆ Measuring performance
- ◆ More overhead
- ◆ Dilution of investment dollar
- ◆ Terminal value benefit - low
- ◆ No "hard" assets
- ◆ Tax leakage (severe on "C" Corps)

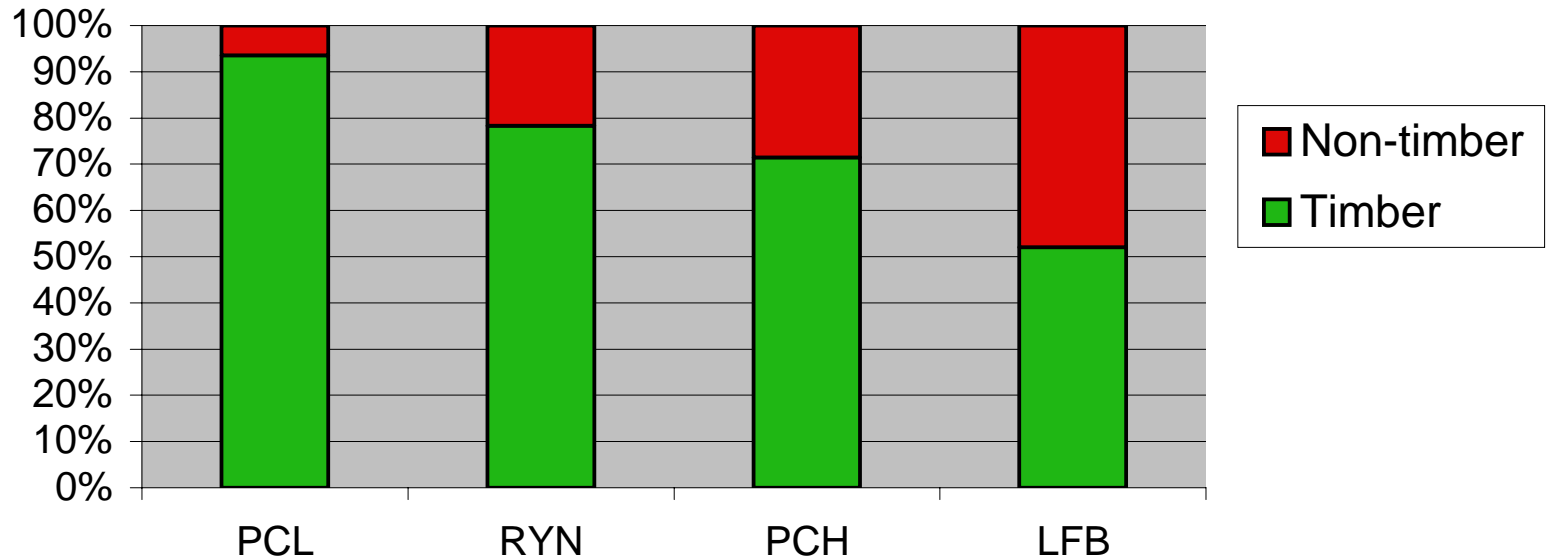
"C" Corps

**Timberland is 27% of Total Enterprise Value
(\$13.5b out of \$50b)**



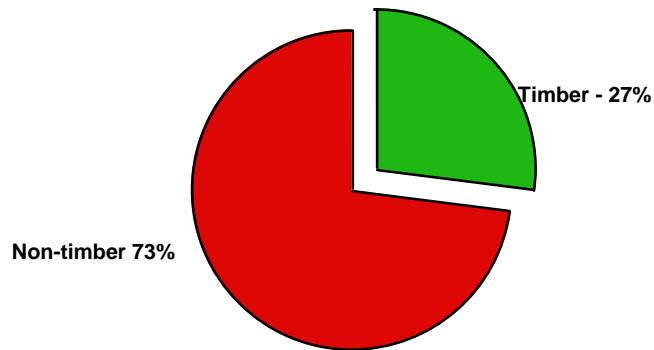
REITs

**Timberland is 76% of Total Enterprise Value
(\$12.8b out of \$16.8b)**

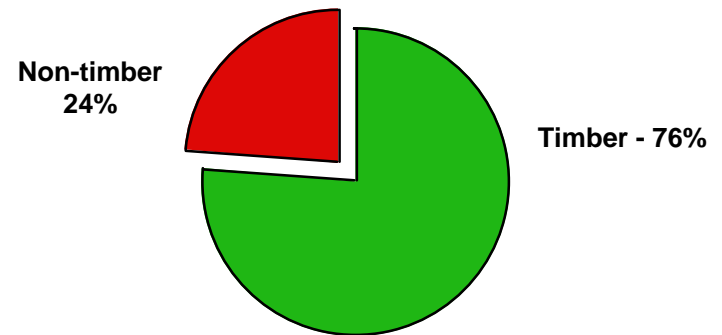


"C" Corps vs. REITs

"C" Corps



REITs



What Are Investor Needs?

They vary by investor and include:



How Do The Products Match Needs?

Attributes of the 18 TIMOs TimberLink tracks

Assets Under Management	
<\$600M	9
\$600M – 1.5B	5
>\$1.5B	4
Regional Diversification	
US Pacific Northwest	6
US Southeast	14
US Northeast	5
Other North America	9
International	4
Investment Products	
Direct accounts	12
Funds	15

Vertical Integration of Property Management Services	
Low	9
High	9
Years offering Timberland Investment Management Services	
1-3	7
4-11	7
12+	4
Clientele	
Public pension	12
Corporate pension	7
Foundations/endowments	9
HNW/family offices	13
Other	7

How Do The Products Match Needs?

Currently, 9 funds are open for investment with varying strategies

- ◆ 4 are traditional diversified funds – “pure” timber
- ◆ 2 employ HBU strategies
- ◆ 1 is international
- ◆ 2 are new concepts

How Do The Products Match Needs?

So, maybe the point is that investor needs vary greatly,
.....and TIMO's are very different from one another
.....therefore it takes some work to find the right match.

Understanding the Typical Acquisition

Every acquisition is unique

- ◆ Buyer & seller expectations
- ◆ Process, method, timing
- ◆ Confidence in inventory & production
- ◆ Price & product mix forecasting
- ◆ Customer base stability

Understanding the Typical Acquisition

Manager skills are diverse

- ◆ Cultivating deals (finding & negotiating)
- ◆ Modeling techniques
- ◆ Rigor of Analysis
- ◆ Understanding Manufacturing Customers
- ◆ Regional / country expertise
- ◆ Track records

Which Execution Plan is “Right” for you?

DEAL Driven?

- ◆ Education of Investor
- ◆ Manager Introductions
- ◆ Wait
- ◆ Deal Reviews
- ◆ Negotiations
- ◆ Commitment

STRATEGY Driven?

- ◆ Education of Investor
- ◆ Quantitative analysis
- ◆ Board Endorsed Allocation
- ◆ Manager Selection
- ◆ Commitment
- ◆ Wait

Managers Have Differentiated Strategies too

- ◆ Softwood vs. Hardwood
- ◆ Tree Farms vs. Natural Systems
- ◆ US Regional & Non-US specializations
- ◆ HBU & Passive Real Estate
- ◆ “Wholesale” to “Retail” Active
- ◆ Conservation Values
- ◆ Other, proprietary

The Deal Flow Problem

Yes, there is deal flow uncertainty.

Timber space will be influenced for the foreseeable future.

Strategic Choices

Equities vs. “Hard” Assets:

Placement risk is real. If you must have timber and cannot wait, re-think Timber REITs .

If you're patient and adaptive, direct timber investing through a TIMO could provide benefits not available through equities.

Observed Trends

- ◆ Lower capital cost, lower fees
- ◆ More creative strategies....greater capital efficiency
- ◆ Confusion over fees - continuing
- ◆ Frustration with appraisals
- ◆ New retail interest & desire to “get in”
- ◆ Blurring lines between “Timber” & “Real Estate”
- ◆ Creative TIMO alignments

Charting the Future

- ◆ The TIMO model will survive, with a minor shuffling of players,...may be a few less
- ◆ Returns will be less robust
- ◆ “C” corps will continue decline in ownership
- ◆ Flexibility will be the critical success factor for new investors
- ◆ Creativity will be the critical success factor for TIMOs